

APPENDIX B

FINANCIAL ACCOUNTING TREATMENT OF TYPICAL FAA COSTS

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PROJECT/MATERIEL MANAGEMENT DESK GUIDE

	Types of Costs	Capitalize/Expense
1	Additions to Existing Assets (extends capacity/service life; roof, HVAC	Capitalize
2	Administrative Costs (direct) of developing and fielding a system (either FAA or contractor incurred) (after technological feasibility has been proven)	Capitalize
3	Advance Payments	See note 1
4	Architecture & Engineering Costs (Rendering, Soil Testing, Drawings)	Capitalize
5	Building Costs (FAA owned) - original costs and major improvements (e.g., purchase price, survey, drawings, installation, preparation work). Includes attached fixtures-lighting/air conditioning	Capitalize
6	Calibration of Equipment:	
	a) incurred prior to project completion	Capitalize
	b) incurred after project completion	Expense
7	Configuration Management (after technological feasibility has been proven)	Capitalize
8	Contractor Logistics Support, Contractor Depot Logistics Support (after project completion)	Expense
9	Damage Claims (incurred prior to project completion)	Capitalize
10	Decommissioning Costs (clean-up, site restoration, Environmental Due Diligence Act)	See note 2
11	Deployment Readiness Review (In Service Decision)	Capitalize
12	Design (System and Engineering) Costs – hardware/software, Failure Mode Criticality Analysis, maintainability/reliability program and demonstration costs	
	a) before feasibility has been determined	Expense
	b) after feasibility has been determined	Capitalize
13	Design Reviews (e.g., Formal Qualification Reviews, preliminary and critical design reviews)	
	a) before feasibility has been determined	Expense
	b) after feasibility has been determined	Capitalize
14	Documentation (System) Costs - incurred prior to project completion (e.g., user guides, manuals)	Capitalize
15	Easements (land rights)	Capitalize
16	Engineering Costs (see also Design Costs)	Capitalize
17	Environmental Impact (new construction)	Capitalize
18	Environmental Remediation Costs (FAA owned property)	
	a) Underground Storage Tanks and Asbestos Removal	See note 3
	b) Soil Removal and Restoration	
	1) as part of a new facility construction	See note 4
	2) as part of cleanup following decommissioning	See note 2

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	Types of Costs	Capitalize/Expense
19	Equipment Costs (FAA owned) initial cost and major improvements; e.g., radars, ILS receivers	Capitalize
20	Failure Mode Criticality Analysis - see Design Costs	
21	First Articles	See note 5
22	Furniture	Expense
23	Handling and Storage Costs	Capitalize
24	Incentive Fees to Contractors (to reward performance goals)	Capitalize
25	Labor Costs During Construction	See note 6
	a) TSSC (Technical Support Services Contract)	Capitalize
	b) LSSC (Logistics Support Services Contract)	Expense
	c) Region F&E personnel; e.g., Activity 5 funds	Capitalize
	d) HQ Program Management Office & IPTs	See note 6
	e) HQ Contractor Support to Program Offices (System Eng. and Tech. Assistance-SETA)	Capitalize
26	Land Acquisition Costs; e.g., survey, title services, appraisals, fees, razing existing structures acquired from others, EDDAs (for purchased or leased site), purchase price	Capitalize
27	Legal Fees - incurred to bring project to its intended use (e.g., title/recording costs)	Capitalize
28	Lease Payments for Land and Property, Plant & Equipment (PP&E)	
	a) Capital Lease	Capitalize
	b) Operating Lease (if lease qualifies as capital lease, contact AFM-210)	Expense
29	Leasehold Improvements (e.g., major renovations, relocate walls, rewire buildings)	Capitalize
30	Legal Fees - External (incurred to bring project to its intended use)	Capitalize
31	Materiel Costs	
	a) Contractor Acquired Property (CAP)	Capitalize
	b) Other contractor provided materiel	Capitalize
32	Maintenance and Repair Costs (see also Contractor Logistics Support)	Expense
33	Modifications to systems or equipment; e.g., upgrades, equipment "leapfrog" modifications)	Capitalize
34	National Airspace Integrated Logistics Support (NAILS)	
	a) costs incurred during the construction/acquisition phase	Capitalize
	b) costs incurred during the operation phase	Expense
35	Operating Materials & Supplies	See note 7
36	Other Structures - FAA owned (Original Cost and Major Improvement) e.g., Airfield Systems, Airport Runways, Aprons, Taxi Lighting	Capitalize

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37	Packaging, Postage and Packing (contractor's costs):	
	a) costs incurred prior to project completion	Capitalize
	b) costs incurred after project completion	Expense
38	Penalties; e.g., fees charged for late payments, etc.	Expense
39	Prepayments	See note 1
40	Production Readiness Review	Capitalize
41	Progress Payments	See note 1
42	Project Management Costs - baseline and contractor administration	Capitalize
43	Prototypes	See note 5
44	Real Estate Costs (incurred to place the project into operation, see also Land Acquisition Costs)	Capitalize
45	Renovation Costs - See Buildings, Equipment & Other Structures and Leasehold Improvements	Capitalize
46	Rental Costs:	
	a) equipment/storage space (prior to project completion)	Capitalize
	b) equipment/storage space (after project completion)	Expense
47	Repair Costs - Emergency Repairs, Routine Repairs	Expense
48	Research and Development Costs (see also Note 2)	Expense
49	Service Costs (incurred after project completion)	Expense
50	Shipping Costs for new systems (including Handling & Storage):	
	a) to point of intended use	Capitalize
	b) after point of intended use	Expense
51	Site Construction Costs (see also Land Acquisition Costs)	Capitalize
52	Site Selection Costs (e.g., legal, survey, design, studies):	
	a) if site was selected for lease or purchase	Capitalize
	b) if site was not selected for lease or purchase	Expense
53	Software Costs (internally and externally produced, embedded)	See note 8
54	Spares:	
	a) component of system, hot wired	Capitalize
	b) other spares (e.g., depot spares, peculiar spares, site spares)	See note 7
55	Special Tools and Test Equipment Hardware	Capitalize
56	System/Subsystem Integrity Check Demonstration	Capitalize
57	System Tests (e.g., Fail Safe Demonstration, Interface Test, Operational Test and Eval.):	
	a) incurred prior to project completion	Capitalize
	b) incurred after project completion	Expense
58	Technical Manuals	Capitalize
59	Technology Refreshment of COTS components (includes Product Improvements or Upgrades)	See note 9
60	Technical Support Services:	
	a) incurred prior to project completion	Capitalize
	b) incurred after project completion	Expense

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	Types of Costs	Capitalize/Expense
61	Telecommunications	
	a) Initial	Capitalize
	b) Service	Expense
62	Test Equipment (procured as component of system)	Capitalize
63	Test Readiness Review	Capitalize
64	Training Courses & Devices - Development and/or construction (system specific)	Capitalize
65	Training Courses - Execution and delivery of training & support services	Expense
66	Travel:	
	a) in support of a NAS development project	Capitalize
	b) not in support of a NAS development project	Expense
67	TSSC Materiel	Capitalize
68	Utilities:	
	a) to bring project to intended use; e.g., installation, site prep, etc.	Capitalize
	b) after project completion	Expense
69	Warranties – extended	See note 10

Note 1. Advance payments and prepayments are payments made to contractors before the completion of the related task or delivery of the item, and are often based on a percentage of contract completion to a progress payment account. Record these payments as prepaid assets (progress payments account).

Note 2. Do not capitalize such cleanup costs. At the time an asset is placed in service (commissioned), estimate what cleanup costs will be incurred in connection with its subsequent decommissioning. Then allocate that estimated total cleanup cost proportionately over the service life of the asset, with a portion of it recognized as expense (and accrued for as a liability) during each service year. Such accrual does not impact the asset's gross value or depreciation, but instead accumulates it is an accumulated liability account.

Note 3. For hazardous materials projects that clean up existing facilities and do not include equipment or materiel, expense all costs as they are incurred. If new equipment or materials are acquired to address environmental concerns (such as scrubbers or filtration devices), account for such equipment as new capital assets if it meets accountability thresholds. Otherwise expense the equipment.

Note 4. Cleanup costs may be incurred in connection with bringing a property to a form and location suitable for its intended use; therefore they are eligible for capitalization, along with other site development costs.

Note 5. Expense any costs incurred on a first article or prototype before technological feasibility has been established. After technological feasibility is established, the subsequent costs of constructing and installing a first article are eligible for capitalization and depreciation. If the first article is placed in service at a site, depreciate it over its estimated service life at that site. If not intended to be placed in operational service, but will be used solely for testing, capitalize and depreciate it over the estimated service life of the entire program (treatment parallel to common project costs. if the system is destroyed during testing, write off the asset at that time.

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Note 6. Allocate labor costs (whether from FAA Headquarters, regional offices or contractors sources. However, with current system limitations, headquarters labor costs cannot be capitalized and should therefore be expensed.

Note 7. Spares are accounted for as Operating Materiel and Supplies (OM&S). They are not capitalized with the F&E project, nor are they expensed at time of procurement, but at the time of project closeout.

Note 8. Consider software embedded in a system to be a part of the project's total cost. Other software costs (both internally and externally incurred) which are procured independently of the hardware on which it is resident, may be capitalizable costs. Examples of capitalizable costs are the costs to purchase or develop the software including design, coding, testing, installation, and any enhancements to existing software that result in significant additional capabilities of the software. Examples of software costs that are not eligible for capitalization include evaluation of alternatives, data conversion costs, costs incurred after final acceptance, software maintenance or enhancements that merely correct a design flaw or extend the useful life of the software.

Note 9. If the original asset was recorded as line-item accountable, delete the old record and record the replacement component as a new detail property record and capitalize it if it meets the capitalization criteria. If the original asset was recorded as a system, determine whether the replacement component increases the capacity or extends the service life of the asset. If it does, capitalize it as an improvement if it meets the capitalization criteria; if it does not, expense it.

Note 10. If FAA purchases an extended warranty, record it as a prepaid asset and amortize it over the life of the warranty.

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